

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

E-01703A

Duncan Valley Electric Cooperative, Inc.
PO Box 440
Duncan, AZ 85534

RECEIVED
APR 18 2011
ACC UTILITIES DIRECTOR

ANNUAL REPORT
Electric

FOR YEAR ENDING

12	31	2010
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FOR COMMISSION USE

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4-21-11

COMPANY INFORMATION

Company Name (Business Name) <u>Duncan Valley Electric Cooperative, Inc.</u>			
Mailing Address <u>PO Box 440</u>			
<u>Duncan</u> (City)	(Street)	<u>AZ</u> (State)	<u>85534</u> (Zip)
<u>928-359-2503</u> Telephone No. (Include Area Code)	<u>928-359-2370</u> Fax No. (Include Area Code)		
Email Address _____			
Local Office Mailing Address <u>Same as above</u>			
(City)	(Street)	(State)	(Zip)
Local Office Telephone No. (Include Area Code) _____			
Fax No. (Include Area Code) _____			
Cell No. (Include Area Code) _____			
Email Address _____			

MANAGEMENT INFORMATION

<input type="checkbox"/> Regulatory Contact:			
<input type="checkbox"/> Management Contact: <u>Michael</u> <u>Peace</u>			
(Name)	(Title)		
<u>PO Box 440</u> (Street)	<u>Duncan</u> (City)	<u>AZ</u> (State)	<u>85534</u> (Zip)
<u>928-359-2503</u> Telephone No. (Include Area Code)	<u>928-359-2370</u> Fax No. (Include Area Code)		
Email Address <u>mike Peace@dvcc.org</u>			
On Site Manager: <u>Same as above</u>			
(Name)	(City)	(State)	(Zip)
(Street)	(City)	(State)	(Zip)
Telephone No. (Include Area Code) _____			
Fax No. (Include Area Code) _____			
Cell No. (Include Area Code) _____			
Email Address _____			

Statutory Agent: <u>Gallagher & Kennedy</u> <u>Mike Grant</u>			
(Name)			
<u>Po Box 32159</u>	<u>Phoenix</u>	<u>Az.</u>	<u>85064</u>
(Street)	(City)	(State)	(Zip)
<u>602-530-8000</u>	<u>602-257-9459</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Attorney: <u>Same as above</u>			
(Name)			
(Street)	(City)	(State)	(Zip)
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address _____			

OWNERSHIP INFORMATION

Check the following box that applies to your company:

<input type="checkbox"/> Sole Proprietor (S)	<input type="checkbox"/> C Corporation (C) (Other than Association/Co-op)
<input type="checkbox"/> Partnership (P)	<input type="checkbox"/> Subchapter S Corporation (Z)
<input type="checkbox"/> Bankruptcy (B)	<input checked="" type="checkbox"/> Association/Co-op (A)
<input type="checkbox"/> Receivership (R)	<input type="checkbox"/> Limited Liability Company
<input type="checkbox"/> Other (Describe) _____	

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

<input type="checkbox"/> APACHE	<input type="checkbox"/> COCHISE	<input type="checkbox"/> COCONINO
<input type="checkbox"/> GILA	<input type="checkbox"/> GRAHAM	<input checked="" type="checkbox"/> GREENLEE
<input type="checkbox"/> LA PAZ	<input type="checkbox"/> MARICOPA	<input type="checkbox"/> MOHAVE
<input type="checkbox"/> NAVAJO	<input type="checkbox"/> PIMA	<input type="checkbox"/> PINAL
<input type="checkbox"/> SANTA CRUZ	<input type="checkbox"/> YAVAPAI	<input type="checkbox"/> YUMA
<input type="checkbox"/> STATEWIDE		

SERVICES AUTHORIZED TO PROVIDE

Check the following box/es for the services that you are authorized to provide:

- ☐ Electric
 - ☐ Investor Owned Electric
 - ☐ Rural Electric Cooperative
 - ☒ Utility Distribution Company
 - ☐ Electric Service Provider
 - ☐ Transmission Service Provider
 - ☐ Meter Service Provider
 - ☐ Meter Reading Service Provider
 - ☐ Billing and Collection
 - ☐ Ancillary Services
 - ☐ Generation Provider
 - ☐ Aggregator/Broker

☐ Other (Specify)_____

STATISTICAL INFORMATION

Total number of customers	2339	
Residential	1927	
Commercial	354	
Industrial		
Public Street and Highway lighting	1	
Irrigation	57	
Resale		
Total kilowatt-hours sold	2129,419	kWh
Residential	1,480,113	
Commercial	482,244	
Industrial		
Public Street and Highway lighting		
Irrigation	167,062	
Resale		
Maximum Peak Load	66.86	MW

COMPANY NAME: Duncan Valley Electric Cooperative, Inc.

UTILITY SHUTOFFS / DISCONNECTS

MONTH		Termination without Notice R14-2-211.B	Termination with Notice R14-2-211	OTHER
JANUARY			10	
FEBRUARY			18	
MARCH			14	
APRIL			5	
MAY			8	
JUNE			0	
JULY			3	
AUGUST			3	
SEPTEMBER			13	
OCTOBER			10	
NOVEMBER			15	
DECEMBER			4	
TOTALS →			103	

OTHER (description):

VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only

RECEIVED

APR 11 2011
ACCUITIES DIRECTOR

VERIFICATION

STATE OF _____

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)	Greenlee
NAME (OWNER OR OFFICIAL) TITLE	Michael Pearce CEO
COMPANY NAME	Duncan Valley Electric Cooperative, Inc.

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2010

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2010 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 3,161,073.58

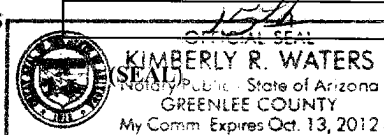
(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 220,952.103
IN SALES TAXES BILLED, OR COLLECTED)

**REVENUE REPORTED ON THIS PAGE MUST
INCLUDE SALES TAXES BILLED OR
COLLECTED. IF FOR ANY OTHER REASON,
THE REVENUE REPORTED ABOVE DOES NOT
AGREE WITH TOTAL OPERATING REVENUES
ELSEWHERE REPORTED, ATTACH THOSE
STATEMENTS THAT RECONCILE THE
DIFFERENCE. (EXPLAIN IN DETAIL)

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS



DAY OF

Michael Pearce
SIGNATURE OF OWNER OR OFFICIAL
928-359-2503
TELEPHONE NUMBER

COUNTY NAME	Greenlee
MONTH	April
	20 11

Kimberly R. Waters
SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES 10/13/2012

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY**

RECEIVED
APR 18 2011
ACC UTILITIES DIRECTOR

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

COUNTY OF (COUNTY NAME) <u>Greenlee</u>	
NAME (OWNER OR OFFICIAL) <u>Michael Pearce</u>	TITLE <u>CEO</u>
COMPANY NAME <u>Duncan Valley Electric Cooperative, Inc.</u>	

MONTH	DAY	YEAR
12	31	2010

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2010 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

\$ 2,508,853.86

(THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 173,012.77
IN SALES TAXES BILLED, OR COLLECTED

*RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.

Michael Pearce
SIGNATURE OF OWNER OR OFFICIAL
928-359-2523
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

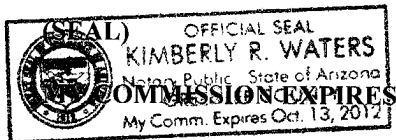
A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

15th

DAY OF

NOTARY PUBLIC NAME <u>Kimberly R. Waters</u>	
COUNTY NAME <u>Greenlee</u>	
MONTH <u>April</u>	YEAR <u>2011</u>



10/13/2012

Kimberly R. Waters
SIGNATURE OF NOTARY PUBLIC

ARIZONA 23 DUNCAN

**DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARY**

DUNCAN, ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**ARIZONA 23 DUNCAN
DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
DUNCAN, ARIZONA**

**CONSOLIDATED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

INDEPENDENT AUDITORS' REPORT

Board of Directors
Duncan Valley Electric Cooperative, Inc.
Duncan, Arizona

We have audited the accompanying consolidated balance sheets of Duncan Valley Electric Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2010 and 2009, and the related consolidated statements of income and patronage capital and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

February 8, 2011

CONSOLIDATED FINANCIAL STATEMENTS

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEET
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

ASSETS

	December 31,	
	2010	2009
UTILITY PLANT AT COST		
Plant in Service	\$ 9,379,627	\$ 9,262,101
Construction Work in Progress	8,258	36,884
	<u>\$ 9,387,885</u>	<u>\$ 9,298,985</u>
Less: Accumulated Provision for Depreciation	5,581,120	5,377,057
	<u>\$ 3,806,765</u>	<u>\$ 3,921,928</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Non-Utility Property	\$ 22,728	\$ 22,728
Investments in Associated Organizations	1,879,658	1,773,272
Notes Receivable (Less allowance for uncollectibles of \$4,169 in 2010 and \$4,169 in 2009)	80,388	73,276
	<u>\$ 1,982,774</u>	<u>\$ 1,869,276</u>
CURRENT ASSETS		
Cash - General	\$ 187,932	\$ 163,459
Temporary Cash Investments	881,262	927,656
Accounts Receivable (Less allowance for uncollectibles of \$20,301 in 2010 and \$15,789 in 2009)	458,068	554,605
Accounts Receivable - Related Companies (Less allowance for uncollectibles of \$0 in 2010 \$0 in 2009)		853
Underbilled Power and Gas Cost	43,426	
Materials and Supplies	184,045	196,217
Interest Receivable	11,622	2,065
Other Current and Accrued Assets	70,451	70,987
	<u>\$ 1,836,806</u>	<u>\$ 1,915,842</u>
DEFERRED CHARGES	\$ 26,113	\$ 44,275
TOTAL ASSETS	<u>\$ 7,652,458</u>	<u>\$ 7,751,321</u>

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 7,535,553	\$ 7,535,553
Other Equities	(655,917)	(543,192)
Unrealized Gain (Loss) on Available-for-Sale Securities	79,485	29,739
	<u>\$ 6,959,121</u>	<u>\$ 7,022,100</u>
CURRENT LIABILITIES		
Accounts Payable - Purchased Power and Gas	\$ 216,986	\$ 206,799
Accounts Payable - Other	337	2,483
Accounts Payable - Overbilled Power and Gas Cost		166,567
Accrued Taxes	59,288	58,115
Consumers' Deposits and Prepayments	62,830	61,980
Accrued Employee Compensated Absences	128,061	155,021
Accrued Payroll	31,527	27,166
Other Current and Accrued Liabilities	47,972	37,656
	<u>\$ 547,001</u>	<u>\$ 715,787</u>
DEFERRED CREDITS	\$ 146,336	\$ 13,434
TOTAL EQUITIES AND LIABILITIES	<u>\$ 7,652,458</u>	<u>\$ 7,751,321</u>

The accompanying notes are an integral part of these financial statements.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Exhibit B

CONSOLIDATED STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Years Ended December 31,				
	2010		2009		Increase (Decrease)
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 2,715,283	64.1	\$ 2,822,273	67.0	\$ (106,990)
Irrigation	350,023	8.3	472,206	11.2	(122,183)
Commercial and Industrial	791,275	18.6	841,795	20.0	(50,520)
Public Street and Highway Lighting	16,443	0.4	16,980	0.4	(537)
Power and Gas Cost Over Billed	209,994	5.0	(127,354)	(3.0)	337,348
Internet Revenues	131,225	3.1	164,358	3.9	(33,133)
Rent from Electric Property	10,263	0.2	10,459	0.2	(196)
Other Operating Revenues	10,800	0.3	10,787	0.3	13
Total Operating Revenues	<u>\$ 4,235,306</u>	<u>100.0</u>	<u>\$ 4,211,504</u>	<u>100.0</u>	<u>\$ 23,802</u>
OPERATING EXPENSES					
Purchased Power and Gas	\$ 2,619,295	61.8	\$ 2,553,413	60.6	\$ 65,882
Distribution - Operation	651,648	15.4	706,197	16.8	(54,549)
Distribution - Maintenance	239,380	5.7	147,202	3.5	92,178
Customer Accounts	360,436	8.5	332,157	7.9	28,279
Customer Service and Information	17,888	0.4	23,353	0.6	(5,465)
Administrative and General	275,165	6.5	267,063	6.3	8,102
Internet Expenses	74,208	1.8	66,081	1.6	8,127
Depreciation and Amortization	276,771	6.5	272,311	6.5	4,460
Other Interest	232	0.0	274	0.0	(42)
Total Operating Expenses	<u>\$ 4,515,023</u>	<u>106.6</u>	<u>\$ 4,368,051</u>	<u>103.8</u>	<u>\$ 146,972</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	<u>\$ (279,717)</u>	<u>(6.6)</u>	<u>\$ (156,547)</u>	<u>(3.8)</u>	<u>\$ (123,170)</u>
FIXED CHARGES					
Interest on Long-Term Debt	<u>0.0</u>	<u>0.0</u>	<u>48</u>	<u>0.0</u>	<u>(48)</u>
OPERATING MARGINS - AFTER FIXED CHARGES	<u>\$ (279,717)</u>	<u>(6.6)</u>	<u>\$ (156,595)</u>	<u>(3.8)</u>	<u>\$ (123,122)</u>
Capital Credits	<u>110,439</u>	<u>2.6</u>	<u>271,524</u>	<u>6.4</u>	<u>(161,085)</u>
NET OPERATING MARGINS	<u>\$ (169,278)</u>	<u>(4.0)</u>	<u>\$ 114,929</u>	<u>2.6</u>	<u>\$ (284,207)</u>
NONOPERATING MARGINS					
Interest Income	\$ 59,192	1.4	\$ 25,882	0.6	\$ 33,310
Other Nonoperating Income (Loss)	<u>(2,637)</u>	<u>(0.1)</u>	<u>(16,489)</u>	<u>(0.4)</u>	<u>13,852</u>
	<u>\$ 56,555</u>	<u>1.3</u>	<u>\$ 9,393</u>	<u>0.2</u>	<u>\$ 47,162</u>
NET MARGINS - BEFORE COMPREHENSIVE INCOME	<u>\$ (112,723)</u>	<u>(2.7)</u>	<u>\$ 124,322</u>	<u>2.8</u>	<u>\$ (237,045)</u>
COMPREHENSIVE INCOME (LOSS)					
Gain (Loss) on Securities Held for Sale	<u>49,747</u>	<u>1.2</u>	<u>84,286</u>	<u>2.0</u>	<u>(34,539)</u>
NET MARGINS - AFTER COMPREHENSIVE INCOME	<u>\$ (62,976)</u>	<u>(1.5)</u>	<u>\$ 208,608</u>	<u>4.8</u>	<u>\$ (271,584)</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	7,535,553		7,535,553		
Transfer of Comprehensive Income	(49,747)		(84,286)		
Income Offset to Prior Losses			(124,322)		
Transfer Losses to Other Equity	<u>112,723</u>				
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 7,535,553</u>		<u>\$ 7,535,553</u>		

The accompanying notes are an integral part of these financial statements.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Exhibit C

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ (112,723)	\$ 124,322
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation	295,430	294,811
Capital Credits - Noncash	(110,439)	(271,524)
Deferred Charges	18,162	25,211
Deferred Credits	132,902	5,485
Accounts Receivable	53,964	1,156
Inventories and Other Current Assets	3,151	(3,585)
Payables and Accrued Expenses	(168,789)	112,280
Net Cash Provided By Operating Activities	\$ 111,658	\$ 288,156
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross Additions to Utility Plant	\$ (157,398)	\$ (279,771)
Salvage Value of Retirements and Other Credits	3,640	3,448
Plant Removal Costs	(26,509)	(28,854)
Unrealized Gain (Loss) on Available for Sale Securities	49,747	84,286
Investments in Associated Organizations	4,053	(493,984)
Notes Receivable - Energy Resource Loans (Net)	(7,112)	(11,164)
Net Cash Used in Investing Activities	\$ (133,579)	\$ (726,039)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to RUS	\$	\$ (2,287)
Payments on Long-Term Debt to CFC		(1,175)
Net Cash Provided by (Used in) Financing Activities	\$ 0	\$ (3,462)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (21,921)	\$ (441,345)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,091,115	1,532,460
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,069,194	\$ 1,091,115
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 0	\$ 48
Income Taxes	\$ 1,605	\$ 0

The accompanying notes are an integral part of these financial statements.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Duncan Valley Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. Power delivered at retail is purchased wholesale from Arizona Electric Power Cooperative, Inc. (AEPCO), of which the Cooperative is a member. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

During 2008, the Cooperative merged Duncan Rural Services Corporation (DRSC) into the Cooperative as a division. DRSC acquired the gas and water utility systems serving the town of Duncan, Arizona, and surrounding area from Graham County Utilities, Inc. on November 1, 1989. Subsequently, the water system was transferred to the town of Duncan for the original purchase price.

During 1997, the Cooperative formed a subsidiary company, AZNEX Cooperative Services, Inc. The subsidiary was formed to provide communication services. The subsidiary has authorized 10,000,000 shares of no par value common stock of which 50,000 has been issued to the Cooperative. The subsidiary began operations in January, 1998. In June 2008, AZNEX sold all of its plant to a third party and ceased operating as an internet company and now earns commissions on a percentage of revenue earned by the acquiring company.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary AZNEX Cooperative Services, Inc. All material intercompany transactions have been eliminated.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

Plant in Service, Maintenance, and Depreciation

Plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

-6-
DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Materials and supplies inventories are valued at average unit cost.

Electric and Gas Revenues

The Cooperative's operating revenues are under the jurisdiction of the Arizona Corporation Commission and the New Mexico Public Regulatory Commission.

The Cooperative records electric and gas revenues as billed to customers on a monthly basis. Revenue is not accrued for power delivered, but not billed at the end of each month.

The Cooperative's tariffs for electric and gas service include a power cost and gas cost recovery factor under which rates charged to customers are adjusted to reflect changes in the cost of power and gas. In order to match power costs and gas costs and related revenues, power cost and gas cost billed in advance is recorded as advance billings to consumers, and power cost and gas cost to be billed in subsequent periods is recognized as accrued unbilled revenue. Annual changes in these amounts appear as over and under billed power cost and gas cost revenue on the statement of income.

Receivables and Bad Debts

The Cooperative records a receivable for power delivered monthly. Periodically, the Board of Directors reviews accounts over 90 days and writes them off. The provision for bad debts is based on historical write-offs and expectations of future bad debts.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificates.

Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers cash – general and temporary cash investments to be cash equivalents.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Duncan, Arizona. The service area includes members in Greenlee County, Arizona, and Hidalgo and Grant Counties, New Mexico. The Cooperative records a receivable for electric and gas revenues as billed on a monthly basis. The Cooperative requires a deposit from consumers upon connection. The deposit accrues interest annually. Deposits are applied to any unpaid bills and fees in the event of default. Deposits on hand totaled \$62,830 and \$61,980 at December 31, 2010 and 2009, respectively. At times during the year, cash balances exceeded FDIC insurance limits.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Federal Income Tax Status

The Cooperative qualifies for exempt status under Internal Revenue Code section 501(c)(12) which requires that 85.00% or more of income consists of amounts collected from members.

AZNEX Cooperative Services, Inc. is a taxable C-corporation. Deferred taxes for AZNEX have been recognized.

2. Assets Pledged

All assets are pledged as security for the long-term debt due RUS and the National Rural Utilities Cooperative Finance Corporation (CFC) during 2008. All debt was repaid in 2009.

3. Plant in Service

The major classes of electric plant are as follows:

	December 31,	
	2010	2009
Duncan Valley Electric Cooperative, Inc.		
Intangible Plant	\$ 176	\$ 176
Distribution Plant	6,264,863	6,127,284
General Plant	1,615,553	1,651,530
Total Electric Plant in Service	<u>\$ 7,880,592</u>	<u>\$ 7,778,990</u>
Gas Utility Plant	\$ 1,454,536	\$ 1,438,612
Gas General Plant	44,499	44,499
Total Gas Plant in Service	<u>\$ 1,499,035</u>	<u>\$ 1,483,111</u>
Construction Work in Progress	\$ 8,258	\$ 36,884
Total Utility Plant	<u>\$ 9,387,885</u>	<u>\$ 9,298,985</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Provision has been made for depreciation of distribution plant at the straight-line composite rates as follows, for both 2010 and 2009.

Station Equipment	3.20%
Poles, Towers, and Fixtures	4.00%
Overhead Conductors and Devices	2.80%
Underground Conduit	2.80%
Underground Conductors and Devices	2.90%
Line Transformers	3.10%
Services	3.60%
Meters	3.40%
Street Lighting and Signal Systems	4.30%
Gas Utility Plant	2.80% - 9.60%

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures	2.85% - 5.00%
Furniture and Equipment	10.00% - 33.30%
Transportation Equipment	8.91% - 20.00%
Stores Equipment	10.00% - 12.50%
Shop and Laboratory Equipment	16.70% - 20.00%
Communications Equipment	12.50% - 20.00%
Miscellaneous Equipment	20.00%

Depreciation for the years ended December 31, 2010 and 2009, was \$295,430 and \$294,811, respectively, of which \$276,771 and \$272,311 was charged to depreciation expense, and \$18,659 and \$22,500 allocated to other accounts.

4. Non-Utility Property

Non-utility property includes land (seven acres, cost \$22,728) not presently being used in the utility operations.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments in Associated Organizations

Investments in associated organizations consisted of the following as of December 31, 2010 and 2009:

	December 31,	
	2010	2009
CFC		
Membership	\$ 2,000	\$ 2,000
Capital Term Certificates	160,647	160,647
Member Capital Securities	500,000	500,000
Patronage Capital	1,012	999
AEPCO		
Patronage Capital	1,102,351	1,006,245
Membership	5	5
NRTC		
Patronage Capital	69,139	66,365
Membership	1,000	1,000
Grand Canyon State Electric Cooperative, Inc.		
Membership	150	150
Other	43,354	35,861
	<u>\$ 1,879,658</u>	<u>\$ 1,773,272</u>

Patronage capital certificates are recorded at the stated amount of the certificates. All other investments are recorded at cost.

6. Notes Receivable

Notes receivable consist of the following:

	December 31,	
	2010	2009
Member Loans - Energy Efficiency Applications	\$ 84,557	\$ 77,445
Total Notes Receivable	<u>\$ 84,557</u>	<u>\$ 77,445</u>
Reserve for Uncollectible Loans	<u>\$ (4,169)</u>	<u>\$ (4,169)</u>
	<u>\$ 80,388</u>	<u>\$ 73,276</u>

During 1990, the Cooperative initiated a program to finance the cost and installation of heat pumps for members. The loans are to be repaid monthly over five years with an interest rate of 5.50%.

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DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Temporary Cash Investments

	December 31,	
	2010	2009
Homestead Funds (at fair market value)	\$ 448,800	\$ 396,976
Judy White Memorial Scholarship Fund (at fair market value)	32,462	28,714
AEPCO Note Participation Program Note	400,000	501,966
Total Investments	<u>\$ 881,262</u>	<u>\$ 927,656</u>

The Cooperative's investment in available-for-sale securities is shown at fair market value. Gains and losses on securities classified as available-for-sale are recognized through the equity account.

The following marketable securities were held as of December 31, 2010:

	Fair Value	Cost	Unrealized Gain
Homestead Funds	\$ 448,800	\$ 367,378	\$ 81,422
Scholarship Funds	32,462	28,573	3,889
	<u>\$ 481,262</u>	<u>\$ 395,951</u>	<u>\$ 85,311</u>

The following marketable securities were held as of December 31, 2009:

	Fair Value	Cost	Unrealized Gain
Homestead Funds	\$ 396,976	\$ 367,378	\$ 29,598
Scholarship Funds	28,714	28,573	141
	<u>\$ 425,690</u>	<u>\$ 395,951</u>	<u>\$ 29,739</u>

Fair Value Hierarchy

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

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DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The securities above are considered Level 2.

8. Inventories

Inventories consist of:

	December 31,	
	2010	2009
Duncan Valley Electric Cooperative, Inc.		
Electric Construction Materials and Supplies	\$ 150,199	\$ 165,096
Resale	5,449	5,460
Gas Utility Construction Material and Supplies	28,397	25,661
Total Cooperative Inventory	<u>\$ 184,045</u>	<u>\$ 196,217</u>

9. Deferred Charges

Deferred charges consist of the following:

	December 31,	
	2010	2009
Right of Way	\$ 22,427	\$ 24,302
Preliminary Survey and Investigation		9,968
Deferred Income Tax		5,404
Other	3,686	4,601
	<u>\$ 26,113</u>	<u>\$ 44,275</u>

10. Income Taxes

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as long as 85% of its revenue is from members for the sole purpose of meeting losses and expenses. For the year ended December 31, 2010, the Cooperative qualified for exemption.

Aznex Cooperative Services, Inc. is a C-corporation subject to federal income taxes. This corporation files a federal income tax return. Current taxes and deferred taxes are allocated to each corporation on a stand alone basis.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Cooperative follows accounting standards for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Cooperative's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized and settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. The Cooperative's principal source of deferred income taxes is due to accelerated depreciation on assets for tax purposes and net operating loss carryforwards.

The components of the deferred tax assets recognized in the financial statements are as follows:

	December 31,	
	2010	2009
Net NonCurrent Deferred Income Taxes		
<u>Federal</u>		
Deferred Tax Asset	\$	\$ 5,393
<u>State</u>		
Deferred Tax Asset		11
Total Noncurrent Deferred Income Tax Asset	\$ <u>0</u>	\$ <u>5,404</u>

The components of the provision for federal and state tax benefit (expense) are as follows:

	December 31,	
	2010	2009
<u>Federal</u>		
Deferred Federal Tax Expense	\$ (5,393)	\$ (11,132)
Federal Income Tax Expense	(2,255)	
	\$ <u>(7,648)</u>	\$ <u>(11,132)</u>
<u>State</u>		
Deferred State Tax Expense	\$ (11)	\$ (3,905)
State Income Tax Expense	(3,807)	(1,615)
	\$ <u>(3,818)</u>	\$ <u>(5,520)</u>
Total Provision for Federal and State Income Taxes	\$ <u>(11,466)</u>	\$ <u>(16,652)</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aznex Cooperative Services, Inc. has a net operating loss (NOL) carryover of \$35,785 for federal income tax purposes. This NOL carryover was incurred in the years ending December 31, 1999, thru December 31, 2004, and may be carried forward to offset future federal taxable income for 20 years. This NOL carryover begins to expire in 2019. A valuation allowance has not been recorded for the deferred tax asset related to the NOL carryover because it is anticipated that the entire NOL carryover will be fully utilized before expiring.

Aznex Cooperative Services, Inc. does not have a net operating loss (NOL) carryover for state income tax purposes.

On January 1, 2009, the Cooperative and Subsidiary adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its' filing status as a tax exempt entity. The Cooperative and Subsidiary determined that it is more likely than not that their tax positions will be sustained upon examination by The Internal Revenue Service (IRS), or other State taxing authority, and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and the state of Arizona. The Companies are no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2007, and state taxing authorities for years before 2006.

The Cooperative and Subsidiary recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2010 and 2009.

11. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 90.64% of the total assets at balance sheet date. No patronage capital has been retired in 2010 or 2009.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Patronage Capital

	December 31,	
	2010	2009
Assigned	\$ 11,497,777	\$ 11,497,777
Assignable	\$ 11,497,777	\$ 11,497,777
Less: Retired	3,962,224	3,962,224
Balance	\$ 7,535,553	\$ 7,535,553

13. Other Equities

	December 31,	
	2010	2009
Retired Capital Credits - Gain	\$ 95,093	\$ 95,093
Unrecovered Losses	(751,010)	(638,285)
	\$ (655,917)	\$ (543,192)

14. Short-Term Borrowing

The Cooperative has a \$500,000 line of credit for short-term financing with CFC at a variable interest rate which expires on March 31, 2011. At December 31, 2010, the Cooperative did not have an outstanding balance on the line of credit.

15. Deferred Credits

	December 31,	
	2010	2009
Judy White Memorial Scholarship Fund	\$ 5,560	\$ 7,268
Renewable Energy Standards Tariff - NM and AZ	67,229	6,166
SGCTVA Escrow	73,547	
	\$ 146,336	\$ 13,434

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Litigation, Commitments, and Contingencies

There is no pending litigation which would materially affect the financial position of the Cooperative.

The Cooperative is committed to purchase its electric power requirements from Arizona Electric Power Cooperative, Inc. (AEPCO) through the year 2020.

17. Pension Benefits

Substantially all employees of the Cooperative participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. The Cooperative makes annual contributions to the program equal to the amounts accrued for pension expense. The plan has periodically been under a moratorium on contributions due to full funding limitations. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The cost to the Cooperative in 2010 and 2009 was \$183,830 and \$123,258, respectively.

The employees also participate in a 401-K plan, a defined contribution plan provided through National Rural Electric Cooperative Association. The Cooperative makes monthly contributions to the plan. The cost for the Cooperative was \$37,841 and \$37,306 for the years ended December 31, 2010 and 2009, respectively.

18. Related Party Transactions

The Cooperative provides services to the Southern Greenlee County TV Association, Inc., under an operations and management agreement. The association also owes the Cooperative accounts receivable under the agreement of \$0 and \$853 as of December 31, 2010 and 2009, respectively.

The Cooperative is represented on the Board of Directors of Arizona Electric Power Cooperative, Inc., (AEPCO) and purchases all of its electric power from AEPCO. Margins earned by AEPCO have been allocated to the Cooperative and are included under Investments in Associated Organizations. The Cooperative also invests through the AEPCO membership investment program as reflected in Note 7.

19. Subsequent Events

The Cooperative has evaluated subsequent events through February 8, 2011, the date which the financial statements were available to be issued.

CONSOLIDATING AND ACCOMPANYING INFORMATION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING
AND ACCOMPANYING INFORMATION**

Our audits of the consolidated financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information shown on pages 17 through 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying information on pages 23 through 29 also is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating and other accompanying information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

February 8, 2011

CONSOLIDATING INFORMATION

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 1

CONSOLIDATING INFORMATION
BALANCE SHEET
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

ASSETS

	December 31,	
	2010	2009
UTILITY PLANT AT COST		
Plant in Service	\$ 9,379,627	\$ 9,262,101
Construction Work in Progress	8,258	36,884
	<u>\$ 9,387,885</u>	<u>\$ 9,298,985</u>
Less: Accumulated Provision for Depreciation	5,581,120	5,377,057
	<u>\$ 3,806,765</u>	<u>\$ 3,921,928</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Nonutility Property	\$ 22,728	\$ 22,728
Investments in Associated Organizations	1,879,658	1,773,272
Investment in Subsidiary Company	63,992	20,669
Notes Receivable (Less allowance for uncollectibles of \$4,169 in 2010 and \$4,169 in 2009)	80,388	73,276
	<u>\$ 2,046,766</u>	<u>\$ 1,889,945</u>
CURRENT ASSETS		
Cash - General	\$ 181,756	\$ 154,599
Temporary Cash Investments	881,262	927,656
Accounts Receivable (Less allowance for uncollectibles of \$20,301 in 2010 and \$15,789 in 2009)	432,085	464,056
Accounts Receivable - Related Companies (Less allowance for uncollectibles of \$0 in 2010 and \$0 in 2009)		84,081
Underbilled Power and Gas Cost	43,426	
Materials and Supplies	184,045	196,217
Interest Receivable	11,622	2,065
Other Current and Accrued Assets	63,556	67,487
	<u>\$ 1,797,752</u>	<u>\$ 1,896,161</u>
DEFERRED CHARGES	<u>\$ 26,113</u>	<u>\$ 38,871</u>
TOTAL ASSETS	<u>\$ 7,677,396</u>	<u>\$ 7,746,905</u>

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 7,535,553	\$ 7,535,553
Other Equities	(655,917)	(543,192)
Unrealized Gain (Loss) on Available-for-Sale	79,485	29,739
	<u>\$ 6,959,121</u>	<u>\$ 7,022,100</u>
CURRENT LIABILITIES		
Accounts Payable - Purchased Power and Gas	\$ 216,986	\$ 206,799
Accounts Payable - Other	34,948	2,483
Accounts Payable - Overbilled Power and Gas Cost		166,567
Accrued Taxes	59,288	58,115
Consumers' Deposits and Prepayments	62,830	61,980
Accrued Employee Compensated Absences	128,061	155,021
Accrued Payroll	31,527	27,166
Other Current and Accrued Liabilities	38,299	33,241
	<u>\$ 571,939</u>	<u>\$ 711,372</u>
DEFERRED CREDITS	<u>\$ 146,336</u>	<u>\$ 13,433</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 7,677,396</u>	<u>\$ 7,746,905</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 2

CONSOLIDATING INFORMATION
STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Years Ended December 31,				
	2010		2009		Increase
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	\$ 2,715,283	66.1	\$ 2,822,273	69.8	\$ (106,990)
Irrigation	350,023	8.5	472,206	11.7	(122,183)
Commercial and Industrial	791,275	19.3	841,795	20.8	(50,520)
Public Street and Highway Lighting	16,443	0.4	16,980	0.4	(537)
Power and Gas Cost Over Billed	209,994	5.1	(127,354)	(3.1)	337,348
Rent from Electric Property	12,189	0.3	12,429	0.3	(240)
Other Operating Revenues	10,800	0.3	10,787	0.3	13
Total Operating Revenues	\$ 4,106,007	100.0	\$ 4,049,116	100.2	\$ 56,891
OPERATING EXPENSES					
Purchased Power and Gas	\$ 2,619,295	63.8	\$ 2,553,413	63.1	\$ 65,882
Distribution - Operation	651,648	15.9	706,197	17.4	(54,549)
Distribution - Maintenance	239,380	5.8	147,202	3.6	92,178
Customer Accounts	360,436	8.8	332,157	8.2	28,279
Customer Service and Information	17,888	0.4	23,353	0.6	(5,465)
Administrative and General	275,165	6.7	267,063	6.6	8,102
Depreciation and Amortization	276,771	6.7	272,311	6.7	4,460
Other Interest	232	0.0	274	0.0	(42)
Total Operating Expenses	\$ 4,440,815	108.1	\$ 4,301,970	106.2	\$ 138,845
OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES	\$ (334,808)	(8.1)	\$ (252,854)	(6.0)	\$ (81,954)
FIXED CHARGES					
Interest on Long-Term Debt		0.0	48	0.0	(48)
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (334,808)	(8.1)	\$ (252,902)	(6.0)	\$ (81,906)
Capital Credits	110,439	2.7	271,524	6.7	(161,085)
NET OPERATING MARGINS	\$ (224,369)	(5.4)	\$ 18,622	0.7	\$ (242,991)
NONOPERATING MARGINS					
Interest Income	\$ 59,493	1.4	\$ 26,870	0.7	\$ 32,623
Other Nonoperating Income (Loss)	8,829	0.2	163	0.0	8,666
Income (Loss) from Subsidiary	43,324	1.1	78,668	1.9	(35,344)
	\$ 111,646	2.7	\$ 105,701	2.6	\$ 5,945
NET MARGINS - BEFORE COMPREHENSIVE INCOME	\$ (112,723)	(2.7)	\$ 124,323	3.3	\$ (237,046)
COMPREHENSIVE INCOME					
Gain (Loss) on Securities Held for Sale	49,747	1.2	84,286	2.1	(34,539)
NET MARGINS - AFTER COMPREHENSIVE INCOME	\$ (62,976)	(1.5)	\$ 208,609	5.4	\$ (271,585)
PATRONAGE CAPITAL - BEGINNING OF YEAR	7,535,553		7,535,553		
Transfer of Comprehensive Income	(49,747)		(84,286)		
Income Offset to Prior Losses			(124,323)		
Transfer Losses to Other Equities	112,723				
PATRONAGE CAPITAL - END OF YEAR	\$ 7,535,553		\$ 7,535,553		

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 3

CONSOLIDATING INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ (112,723)	\$ 124,323
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation	295,430	294,811
Capital Credits - Noncash	(110,439)	(271,524)
(Gain) Loss from Subsidiary	(43,324)	(78,668)
Deferred Charges	12,758	10,174
Deferred Credits	132,903	5,484
Accounts Receivable	72,626	99,499
Inventories and Other Current Assets	6,546	(85)
Payables and Accrued Expenses	(139,436)	111,865
Net Cash Provided By Operating Activities	\$ 114,341	\$ 295,879
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross Additions to Utility Plant	\$ (157,398)	\$ (279,771)
Salvage Value of Retirements and Other Credits	3,640	3,448
Plant Removal Costs	(26,509)	(28,854)
Unrealized Gain (Loss) on Available for Sale Securities	49,747	84,286
Investments in Associated Organizations	4,054	(493,984)
Notes Receivable - Energy Resource Loans (Net)	(7,112)	(11,164)
Net Cash Used in Investing Activities	\$ (133,578)	\$ (726,039)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to RUS	\$	\$ (2,287)
Payments on Long-Term Debt to CFC		(1,175)
Net Cash Provided by (Used in) Financing Activities	\$ 0	\$ (3,462)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (19,237)	\$ (433,622)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,082,255	1,515,877
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,063,018	\$ 1,082,255
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 0	\$ 48
Income Taxes	\$ 0	\$ 0

AZNEX COOPERATIVE SERVICES, INC.

Schedule 4

CONSOLIDATING INFORMATION
BALANCE SHEET
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

ASSETS

	December 31,	
	2010	2009
CURRENT ASSETS		
Cash - General	\$ 6,176	\$ 8,860
Accounts Receivable	60,596	90,549
Prepaid Income Taxes	6,895	3,500
	<u>\$ 73,667</u>	<u>\$ 102,909</u>
DEFERRED CHARGES	\$	\$ 5,404
	<u>\$ 73,667</u>	<u>\$ 108,313</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2010	2009
CURRENT LIABILITIES		
Accounts Payable	\$	\$ 83,228
Accrued Liabilities	9,673	4,415
	<u>\$ 9,673</u>	<u>\$ 87,643</u>
STOCKHOLDERS' EQUITY		
Capital Stock; No Par Value; 10,000,000 Shares Authorized; 50,000 Shares Issued and Outstanding	\$ 50,000	\$ 50,000
Retained Deficit	13,994	(29,330)
	<u>\$ 63,994</u>	<u>\$ 20,670</u>
	<u>\$ 73,667</u>	<u>\$ 108,313</u>

AZNEX COOPERATIVE SERVICES, INC.

Schedule 5

**CONSOLIDATING INFORMATION
STATEMENT OF INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	December 31,	
	2010	2009
OPERATING REVENUES		
Internet Revenue	\$ 131,225	\$ 164,358
	<u>\$ 131,225</u>	<u>\$ 164,358</u>
OPERATING EXPENSES		
Internet Expenses	\$ 76,134	\$ 68,051
	<u>\$ 76,134</u>	<u>\$ 68,051</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 55,091	\$ 96,307
FIXED CHARGES		
Interest Expense	<u>301</u>	<u>988</u>
OPERATING MARGINS (LOSS)- BEFORE INCOME TAXES	\$ 54,790	\$ 95,319
INCOME TAX EXPENSE	<u>(11,466)</u>	<u>(16,652)</u>
OPERATING MARGINS (LOSS)- AFTER INCOME TAXES	\$ 43,324	\$ 78,667
RETAINED LOSS - BEGINNING OF YEAR	<u>(29,330)</u>	<u>(107,997)</u>
RETAINED EARNINGS (LOSS) - END OF YEAR	<u>\$ 13,994</u>	<u>\$ (29,330)</u>

AZNEX COOPERATIVE SERVICES, INC.

Schedule 6

**CONSOLIDATING INFORMATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ 43,324	\$ 78,667
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities		
Accounts Receivable	29,953	(24,719)
Prepaid Income Taxes	(3,395)	(3,500)
Deferred Charges	5,404	15,037
Payables and Accrued Expenses	(77,970)	(73,209)
Net Cash Used in Operating Activities	\$ (2,684)	\$ (7,724)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Provided by (Used in) Investing Activities	\$ 0	\$ 0
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Cash Provided by (Used in) Financing Activities	\$ 0	\$ 0
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (2,684)	\$ (7,724)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	8,860	16,584
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,176</u>	<u>\$ 8,860</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 0	\$ 988
Income Taxes	<u>\$ 1,605</u>	<u>\$ 0</u>

ACCOMPANYING INFORMATION

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 7

ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance 1/1/2010	Additions	Retirements	Balance 12/31/2010
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Intangible Plant	\$ 176	\$	\$	\$ 176
Distribution Plant				
Land and Land Rights	\$ 2,397	\$	\$	\$ 2,397
Station Equipment	145,413			145,413
Poles, Towers, and Fixtures	1,765,908	52,322	8,759	1,809,471
Overhead Conductors and Devices	1,705,879	22,646	3,522	1,725,003
Underground Conduit	24,286	(2,950)		21,336
Underground Conductors and Devices	139,327	3,562	2,333	140,556
Line Transformers	1,291,281	34,838		1,326,119
Services	468,231	32,663	5,558	495,336
Meters	455,967	4,041	(4,157)	464,165
Street Light and Signal Systems	128,595	9,357	2,885	135,067
Total	\$ 6,127,284	\$ 156,479	\$ 18,900	\$ 6,264,863
General Plant				
Land and Land Rights	\$ 9,740	\$	\$	\$ 9,740
Structures and Improvements	635,993			635,993
Office Furniture and Equipment	217,657	4,090		221,747
Transportation Equipment	319,966			319,966
Stores Equipment	30,190			30,190
Tools, Shop, and Garage Equipment	18,936			18,936
Laboratory Equipment	40,444			40,444
Power Operated Equipment	222,942		40,067	182,875
Communications Equipment	79,385			79,385
Miscellaneous Equipment	76,277			76,277
Total	\$ 1,651,530	\$ 4,090	\$ 40,067	\$ 1,615,553
Total Classified Electric Plant in Service	\$ 7,778,990	\$ 160,569	\$ 58,967	\$ 7,880,592
Gas Plant in Service				
Distribution Plant	\$ 1,438,612	\$ 25,455	\$ 9,531	\$ 1,454,536
General Plant	44,499			44,499
Total Gas Plant in Service	\$ 1,483,111	\$ 25,455	\$ 9,531	\$ 1,499,035
Construction Work in Progress	\$ 36,884	\$ (28,626)	\$ 0	\$ 8,258
Total Utility Plant	\$ 9,298,985	\$ 157,398	\$ 68,498	\$ 9,387,885

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 8

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance 1/1/2010	Depreciation Accruals	Retirements	Balance 12/31/2010
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Distribution Plant	\$ 3,270,088	\$ 206,165	\$ 44,060	\$ 3,432,193
General Plant				
Structures and Improvements	\$ 478,817	\$ 17,405	\$	\$ 496,222
Laboratory Equipment	40,444			40,444
Office Furniture and Fixtures	213,583	1,854		215,437
Transportation Equipment	228,399	17,005		245,404
Tools, Shop, and Garage Equipment	18,935			18,935
Communications Equipment	78,806	319		79,125
Stores Equipment	30,192			30,192
Power Operated Equipment	166,194	3,403	38,886	130,711
Miscellaneous Equipment	68,301	4,404		72,705
Total General Plant	\$ 1,323,671	\$ 44,390	\$ 38,886	\$ 1,329,175
Total Classified Electric Plant in Service	\$ 4,593,759	\$ 250,555	\$ 82,946	\$ 4,761,368
Gas Plant in Service				
Distribution Plant	\$ 754,411	\$ 44,564	\$ 12,460	\$ 786,515
General Plant	40,406	311		40,717
Total Gas Plant in Service	\$ 794,817	\$ 44,875	\$ 12,460	\$ 827,232
Retirement Work in Progress	\$ (11,519)	\$ 0	\$ (4,039)	\$ (7,480)
	\$ 5,377,057	\$ 295,430	\$ 91,367	\$ 5,581,120
		(1)	(2)	
(1) Charged to Depreciation Expense		\$ 276,771		
Charged to Clearing Accounts		18,659		
		\$ 295,430		
(2) Cost of Units Retired			\$ 68,498	
Add: Cost of Removal			26,509	
Less: Salvage and Other Credits			3,640	
Loss Due to Retirements			\$ 91,367	

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 9

**OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2010 AND 2009**

	December 31,	
	2010	2009
NON-UTILITY PROPERTY		
Land	\$ 22,728	\$ 22,728
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Patronage Capital Credits		
Arizona Electric Power Cooperative, Inc.	\$ 1,102,351	\$ 1,006,245
CFC	1,012	999
NRTC	69,139	66,365
Memberships		
CFC	2,000	2,000
Grand Canyon State Electric Cooperatives Association	150	150
Arizona Electric Power Cooperative, Inc.	5	5
Southwest Transmission Electric	100	100
Sierra Southwest Electric Power Cooperative Services	100	100
National Cooperative Services Corporation	100	100
NRTC	1,000	1,000
Capital Term Certificates - CFC	160,647	160,647
Member Capital Securities - CFC	500,000	500,000
Investment - Federated Insurance	43,054	35,561
	<u>\$ 1,879,658</u>	<u>\$ 1,773,272</u>
INVESTMENT IN SUBSIDIARY - AZNEX, INC.		
Capital Stock	\$ 50,000	\$ 50,000
Accumulated Losses	13,992	(29,331)
	<u>\$ 63,992</u>	<u>\$ 20,669</u>
NOTES RECEIVABLE		
Member Loans - Heat Pump Installations	\$ 84,557	\$ 77,445
Reserve for Uncollectible Loans	(4,169)	(4,169)
	<u>\$ 80,388</u>	<u>\$ 73,276</u>
Total Other Property and Investments	<u><u>\$ 2,046,766</u></u>	<u><u>\$ 1,889,945</u></u>

**TEMPORARY INVESTMENTS
DECEMBER 31, 2010 AND 2009**

	December 31,	
	2010	2009
AEPCO Note Participation Program Note	\$ 400,000	\$ 501,966
Homestead Funds	448,800	396,976
Judy White Memorial Scholarship Fund	32,462	28,714
	<u>\$ 881,262</u>	<u>\$ 927,656</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 10

PATRONAGE CAPITAL
DECEMBER 31, 2010

Year	Assignable	Assigned		Retired	Balance
		G&T	Distribution		
1962	\$	\$	\$ 18,451	\$ 18,451	\$
1963			28,331	28,331	
1964			24,321	24,321	
1965			22,136	22,136	
1966			14,129	14,129	
1967			26,314	26,314	
1968			18,407	18,407	
1969		2,449	21,870	21,870	2,449
1970		3,311	29,124	29,124	3,311
1971		9,430	25,016	25,016	9,430
1972		10,177	31,557	31,557	10,177
1973		11,000	27,481	27,481	11,000
1974		16,741	33,261	33,261	16,741
1975			17,181	17,181	
1976			67,323	67,323	
1977			6,692	6,692	
1978			298,176	298,176	
1979			688,746	688,746	
1980			557,245	557,245	
1981			695,070	695,070	
1982			430,960	430,960	
1983			232,451	232,451	
1984			392,534	392,534	
1985			470,802	255,448	215,354
1986			450,792		450,792
1987			416,247		416,247
1988			404,833		404,833
1989			394,443		394,443
1990			568,865		568,865
1991			550,305		550,305
1992			451,779		451,779
1993			446,191		446,191
1994			501,539		501,539
1995			601,994		601,994
1996			146,067		146,067
1997			615,366		615,366
1998			1,443,833		1,443,833
2001-AEPCO		93,791			93,791
2002-AEPCO		125,726			125,726
2003-AEPCO		55,320			55,320
	\$ 0	\$ 327,945	\$ 11,169,832	\$ 3,962,224	\$ 7,535,553

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 11

ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	December 31,		Increase
	2010	2009	(Decrease)
Office Supplies and Expense	\$ 52,656	\$ 53,005	\$ (349)
Outside Services Employed	38,707	39,620	(913)
Directors' Fees and Expense	85,498	55,059	30,439
Annual Meeting Expense	8,771	8,005	766
Dues to Associated Organizations	25,407	33,525	(8,118)
Miscellaneous General Expense	47,678	42,892	4,786
Utility Commission Related Expenses	11,633	17,907	(6,274)
Maintenance of General Plant	10,239	22,279	(12,040)
Duplicate Charges (Credit)	<u>(5,424)</u>	<u>(5,229)</u>	<u>(195)</u>
Total	\$ <u>275,165</u>	\$ <u>267,063</u>	\$ <u>8,102</u>

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DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 12

FIVE YEAR COMPARATIVE DATA

Financial Data	Years Ended December 31,				
	2010	2009	2008	2007	2006
OPERATING REVENUES					
Residential	\$ 2,715,283	\$ 2,822,273	\$ 2,878,768	\$ 2,097,705	\$ 1,886,357
Irrigation	350,023	472,206	348,334	274,129	271,136
Commercial and Industrial	791,275	841,795	832,744	635,853	587,828
Public Street and Highway Lighting	16,443	16,980	15,835	14,340	14,051
Power Cost Under (Over) Billed	209,994	(127,354)	(99,569)	69,697	(13,587)
Rent from Electric Property	12,189	12,429	23,203	28,005	28,920
Other Operating Revenues	10,800	10,787	15,053	13,505	11,116
Total Operating Revenues	<u>\$ 4,106,007</u>	<u>\$ 4,049,116</u>	<u>\$ 4,014,368</u>	<u>\$ 3,133,234</u>	<u>\$ 2,785,821</u>
OPERATING EXPENSES					
Purchased Power	\$ 2,619,295	\$ 2,553,413	\$ 2,466,267	\$ 2,018,963	\$ 1,727,619
Distribution - Operation	651,648	706,197	586,811	361,510	327,402
Distribution - Maintenance	239,380	147,202	115,557	78,466	52,330
Customer Accounts	360,436	332,157	289,305	(21,682)	245,185
Customer Service and Information	17,888	23,353	7,755	16,108	14,921
Administrative and General Expense	275,165	267,063	250,191	282,674	250,924
Depreciation and Amortization	276,771	272,311	265,591	227,456	223,752
Other Interest	232	274	1,374	2,382	1,980
Other Deductions					4,888
Total Operating Expenses	<u>\$ 4,440,815</u>	<u>\$ 4,301,970</u>	<u>\$ 3,982,851</u>	<u>\$ 2,965,877</u>	<u>\$ 2,849,001</u>
OPERATING MARGINS (LOSS) - Before Fixed Charges	<u>\$ (334,808)</u>	<u>\$ (252,854)</u>	<u>\$ 31,517</u>	<u>\$ 167,357</u>	<u>\$ (63,180)</u>
FIXED CHARGES					
Interest on Long-Term Debt		48	668	1,391	2,720
OPERATING MARGINS (LOSS) - After Fixed Charges	<u>\$ (334,808)</u>	<u>\$ (252,902)</u>	<u>\$ 30,849</u>	<u>\$ 165,966</u>	<u>\$ (65,900)</u>
Capital Credits	110,439	271,524	425,564	122,851	13,919
NET OPERATING MARGINS (LOSS)	<u>\$ (224,369)</u>	<u>\$ 18,622</u>	<u>\$ 456,413</u>	<u>\$ 288,817</u>	<u>\$ (51,981)</u>
NONOPERATING MARGINS (LOSS)					
Interest Income	\$ 59,493	\$ 26,870	\$ 55,329	\$ 148,982	\$ 165,215
Other Nonoperating Income (Loss)	8,829	163	(31,244)	(4,513)	(19,380)
Income (Loss) of Subsidiary	43,324	78,668	(12,066)	80,524	31,507
	<u>\$ 111,646</u>	<u>\$ 105,701</u>	<u>\$ 12,019</u>	<u>\$ 224,993</u>	<u>\$ 177,342</u>
NET MARGINS (LOSS) - BEFORE COMPREHENSIVE INCOME	<u>\$ (112,723)</u>	<u>\$ 124,323</u>	<u>\$ 468,432</u>	<u>\$ 513,810</u>	<u>\$ 125,361</u>
Miscellaneous Statistics					
Equity to Total Assets	90.64	90.64	91.72	92.96	92.86
Equity to Total Capitalization	100.00	100.00	99.95	99.75	99.54

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 13

**DIVISIONAL INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Year Ended December 31, 2010			
	Electric		Gas	
	Amount	%	Amount	%
OPERATING REVENUES				
Residential	\$ 2,282,715	64.9	\$ 432,568	72.3
Irrigation	316,051	9.0	33,972	5.7
Commercial and Industrial	711,930	20.3	79,345	13.3
Public Street and Highway Lighting	16,443	0.5		0.0
Power and Gas Cost Over Billed	161,724	4.6	48,270	8.1
Rent from Electric Property	18,184	0.5		0.0
Other Operating Revenues	7,045	0.2	3,755	0.6
Total Operating Revenues	<u>\$ 3,514,092</u>	<u>100.0</u>	<u>\$ 597,910</u>	<u>100.0</u>
OPERATING EXPENSES				
Purchased Power and Gas	\$ 2,435,216	69.3	\$ 184,079	30.8
Distribution - Operation	376,977	10.7	274,671	45.9
Distribution - Maintenance	181,021	5.2	64,354	10.8
Customer Accounts	288,606	8.2	71,830	12.0
Customer Service and Information	17,888	0.5		0.0
Administrative and General	250,008	7.1	25,157	4.2
Depreciation and Amortization	231,896	6.6	44,875	7.5
Other Interest	232	0.0		0.0
Total Operating Expenses	<u>\$ 3,781,844</u>	<u>107.6</u>	<u>\$ 664,966</u>	<u>111.2</u>
OPERATING LOSS - BEFORE FIXED CHARGES	<u>\$ (267,752)</u>	<u>(7.6)</u>	<u>\$ (67,056)</u>	<u>(11.2)</u>
Capital Credits	<u>110,439</u>	<u>3.1</u>	<u></u>	<u>0.0</u>
NET OPERATING MARGINS (LOSS)	<u>\$ (157,313)</u>	<u>(4.5)</u>	<u>\$ (67,056)</u>	<u>(11.2)</u>
NONOPERATING MARGINS				
Interest Income	\$ 59,493	1.7	\$	
Other Nonoperating Income	52,153	1.5		0.0
	<u>\$ 111,646</u>	<u>3.2</u>	<u>\$ 0</u>	<u>0.0</u>
DIVISIONAL INCOME (LOSS)	<u><u>\$ (45,667)</u></u>	<u><u>(1.3)</u></u>	<u><u>\$ (67,056)</u></u>	<u><u>(11.2)</u></u>

